

# **The Plan for Lower Taxes in New Brunswick 2009-2012**

**March 2009**

Department of Finance

*Leadership for a Stronger Economy  
Toward Self-Sufficiency*

The Plan for Lower Taxes in New Brunswick

2009.03

Department of Finance  
Province of New Brunswick  
PO Box 6000  
Fredericton NB E3B 5H1  
Canada

[www.gnb.ca/finance](http://www.gnb.ca/finance)

ISBN 978-1-55471-197-0

# Table of Contents

1. Introduction	3
2. Purpose of Tax Reductions	4
3. The Plan for Lower Taxes	5
4. Summary of Tax Review Process	5
5. Value of The Plan for Lower Taxes	6
6. Personal Taxes	7
7. A Growth-Oriented Tax Structure for Business	11
8. Provincial and Municipal Property Tax Accountability	14
9. Conclusion	16
Appendices	17

# List of Tables and Charts

Table 1 – 2009-2010 Budget Annual Tax Savings (\$Millions)	6
Table 2 – New Brunswick Personal Income Tax Rates	8
Table 3 – New Brunswick Provincial Income Tax Savings for Single Tax Filer	8
Table 4 – New Brunswick Provincial Income Tax Savings for One-Earner Family	9
Table 5 – New Brunswick General Corporate Income Tax Rate: 2009 to 2012	11
Chart 1 – Interprovincial Comparison: General Corporate Income Tax Rates 2012	12
Table 6 – Establishing the Assessment Components	14
Table 7 – Application of the Property Tax Accountability Mechanism	15

## Appendices

Table A.1 – Personal Income Tax (PIT) Implementation Plan	18
Table A.2 – Single Tax Filer: New Brunswick Provincial Income Tax Savings Compared to 2008	19
Table A.3 – One-Earner Family: New Brunswick Provincial Income Tax Savings Compared to 2008	20
Table A.4 – Single Tax Filer: 2008 Interprovincial Differences	21
Table A.5 – Single Tax Filer: 2012 Interprovincial Differences	22

# 1. Introduction

The global economic crisis affecting North America and beyond has necessitated strong leadership by government. The Government of New Brunswick has moved swiftly and decisively to ensure our province weathers the economic storm and comes out stronger when it is over.

In December, New Brunswick was one of the first jurisdictions to outline its economic and fiscal position and put forward a clear plan to address the economic crisis and assure the province remains on the road to self-sufficiency by 2026.

A key part of that plan is lower taxes. The other pillars of the plan are: restraint within government; providing companies with access to capital funds; and a record \$1.2-billion investment in infrastructure across the province over the next two years. Taken together, the elements of the government's plan will help the province deal with the economic challenges of today with a plan that builds for the future.

The Plan for Lower Taxes in New Brunswick announced in this Budget will leave more money in the pockets of New Brunswickers and help protect and create jobs during the current economic downturn. This will help New Brunswickers pay their mortgage or rent, put food on the table for their families, and make it easier for them to make ends meet.

The Plan for Lower Taxes is a vital part of the government's long-term economic development strategy. It is designed to promote investment opportunities, economic growth and create jobs for New Brunswickers. Lower taxes will foster an economic climate where our residents can choose to stay in New Brunswick, and those who are working elsewhere can return with opportunities for meaningful employment here in New Brunswick.

Lower taxes for business will encourage New Brunswick companies to stay here and grow, and will make New Brunswick an even more attractive place to do business. As well, lower taxes will encourage new businesses to invest in New Brunswick and create new permanent jobs, providing opportunities for young men and women graduating from colleges and universities who are starting their professional careers. It will also go a long way toward creating jobs to bring New Brunswick's sons and daughters home to be closer to their families.

Lower taxes will have a significant positive impact on job creation and, therefore, population growth. The more people living and working right here in New Brunswick, the more economic activity there will be – and that means more revenues to maintain and enhance important services such as health care, education and social programs.

Since beginning the journey to realize self-sufficiency by 2026, New Brunswick has made great progress in a number of key areas.

We have had considerable success in job creation; our health-care system is much more patient-focused; our schools, universities and colleges have undergone positive transformational change; and for the first time in many years, New Brunswick has been successful in attracting new residents to our province.

Now, the time has come for our province to take another bold step forward with The Plan for Lower Taxes in New Brunswick, which will significantly lower taxes over the next four years.

The Plan for Lower Taxes announced in the 2009-2010 Budget will help create the growth in income, investment, savings, jobs and population needed for New Brunswick to achieve self-sufficiency by 2026.

The tax savings outlined in the 2009-2010 Budget amount to \$380 million annually by 2012-2013, with more than \$143 million going back into the pockets of New Brunswick individuals and businesses in fiscal 2009-2010 alone.

These lower taxes allow New Brunswickers to keep more of their income, help grow the economy and the tax base, and enable the Province to continue to enhance quality services now and into the future.

Lower taxes will help New Brunswickers weather the current global economic turmoil and better position the Province to achieve self-sufficiency by 2026.

The benefits of the personal income tax reductions are presented in the Appendices. They also appear on the Department of Finance website at: [www.gnb.ca/finance](http://www.gnb.ca/finance). In addition to these tables, the website features a new tax calculator which will allow individuals to estimate their savings from the personal income tax reductions announced in the 2009-2010 Budget.

The provincial comparisons in this document are based on information available as of March 17, 2009. The information will be updated on the website once all provincial 2009-2010 budgets are delivered.

## 2. Purpose of Tax Reductions

The government has outlined the rationale for lower taxes on a number of occasions. The fundamental purpose of providing tax relief for New Brunswick individuals and businesses is:

1. To leave more money in the pockets of New Brunswickers to save, invest and spend as they choose.
2. To help New Brunswick companies stay in the province and grow, and to attract outside investment, creating meaningful jobs for our children to remain or return to work right here in New Brunswick.

Combined with the long-term benefits, the timing of The Plan for Lower Taxes has the benefit of being another form of economic stimulus during these challenging economic times. The lower taxes provided in this Budget will help New Brunswickers keep more of their hard-earned dollars and help maintain existing jobs and create new jobs in the province.

### 3. The Plan for Lower Taxes

The Plan for Lower Taxes will allow the Government of New Brunswick to put tax reductions in place between 2009 and 2012 in a fiscally responsible manner. Key elements of the plan are as follows:

- Lowering personal income taxes and simplifying the personal income tax structure by replacing the current four-rate system with two tax rates of 9% and 12%;
- Creating a growth-oriented business tax environment by reducing the general corporate income tax rate from the current 13% to 8%;
- Introducing a series of tax measures designed to provide lower taxes to individuals as well as to small, medium and large businesses in an effort to promote investment in the New Brunswick economy; and,
- Introducing an accountability mechanism that will help prevent provincial and municipal property taxes from automatically escalating when assessments rise.

### 4. Summary of Tax Review Process

On June 4, 2008, the government released "A Discussion Paper on New Brunswick's Tax System", which presented a series of options intended to improve New Brunswick's tax competitiveness and encourage economic growth over the long term.

The options outlined in the Discussion Paper were designed to shift reliance from income tax to consumption tax. The Paper was published prior to the global economic downturn which began in the fall of 2008.

Following the release of the Discussion Paper, the government appointed an all-party Select Committee on Tax Review, which conducted public consultations throughout the province in June and July of 2008. Written and online submissions were also accepted by the Select Committee on Tax Review.

One comment the Select Committee (and subsequently government) heard clearly was that the public did not want a carbon tax introduced or consumption taxes increased. This is an even more important consideration given the current economic situation.

In response to the release of the Select Committee's report, the Minister of Finance provided a broad outline of the government's tax reduction plan. At that time, it was also indicated that the details of the major tax reduction package would be announced in the March 2009 Budget. It was indicated that the key elements of the package would include gradual, yet significant, reductions in personal income tax, as well as a reduction in the general corporate income tax rate. These reductions are reflected in The Plan for Lower Taxes announced in the 2009-2010 Budget. The tax savings begin in 2009 and will be fully phased in by 2012.

## 5. Value of The Plan for Lower Taxes

The tax reductions outlined in the Budget provide for approximately \$144 million in savings to New Brunswick individuals and corporations in 2009-2010. These savings grow to more than \$380 million by 2012-2013 when the tax cuts are fully implemented. In 2009-2010, the tax relief for individuals is approximately \$124 million.

This Plan for Lower Taxes provides the largest one-time tax reduction package ever introduced in New Brunswick.

The tax relief offered in this Budget actually exceeds the net tax reductions identified in "A Discussion Paper on New Brunswick's Tax System" released on June 4, 2008.

Last year's Discussion Paper noted that the personal and corporate income tax reductions would result in annual tax savings of between \$400 million and \$500 million once fully phased in. The Discussion Paper included options to make up for a significant portion of this tax cut by increasing the provincial portion of the Harmonized Sales Tax (HST) and introducing a carbon tax. Increasing the provincial portion of the HST by two percentage points would generate approximately \$250 million annually and introducing a carbon tax would generate approximately \$100 million annually. Therefore, the net annual tax savings for individuals and corporations would have been reduced to approximately \$150 million, once fully implemented.

The Plan for Lower Taxes will actually see tax relief for New Brunswickers amounting to more than \$380 million annually once fully implemented. This is significantly greater than the \$150 million in net tax savings outlined in "A Discussion Paper on New Brunswick's Tax System".

**Table 1 – 2009-2010 Budget Annual Tax Savings (\$Millions)**

<b>Tax Measure:</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>
Personal Income Tax Rate Reductions	-118.0	-232.0	-288.0	-323.0
Enhanced Tuition Rebate	-2.0	-2.5	-3.5	-5.0
Enhanced Low-Income Seniors' Benefit	-3.5	-7.4	-7.8	-8.2
<b><i>Tax Savings for Individuals</i></b>	<b>-123.5</b>	<b>-241.9</b>	<b>-299.3</b>	<b>-336.2</b>
General Corporate Income Tax Rate Reduction	-6.0	-11.0	-20.0	-37.0
Increased Small Business Limit	-1.0	-1.0	-1.0	-1.0
Enhanced Small Business Investor Tax Credit	-2.0	-3.0	-4.0	-5.0
Enhanced Labour Sponsored Venture Capital Tax Credit	-1.0	-1.0	-1.0	-1.0
High Energy Use Tax Rebate	-5.0	0.0	0.0	0.0
Forestry Industry Investment Tax Credit	-5.0	0.0	0.0	0.0
<b><i>Tax Savings for Business</i></b>	<b>-20.0</b>	<b>-16.0</b>	<b>-26.0</b>	<b>-44.0</b>
<b>TOTAL TAX SAVINGS</b>	<b>-143.5</b>	<b>-257.9</b>	<b>-325.3</b>	<b>380.2</b>



In 2009-2010, the first year of The Plan for Lower Taxes in New Brunswick, the \$143.5-million tax reduction more than offsets the \$115-million increase announced in the 2007-2008 Budget. In addition to the 2007-2008 Budget measures, there were several other changes that government implemented, including the 3.8-cents-per-litre gas tax reduction and the introduction of the \$2,000 benefit for first-time university students.

In 2009-2010, individuals will see approximately \$118 million in personal income tax savings, which exceeds the personal income tax increase of \$50 million imposed in the 2007-2008 Budget.

## 6. Personal Taxes

In order to provide individuals with information on the personal income tax reductions, it is important to highlight the current tax structure. For 2008, the year for which most people are currently preparing their income tax returns, there are four tax rates and four tax brackets. These are identified in Table 2. For 2008, the basic personal amount was \$8,395 and the spousal amount was \$7,129.

The 2009-2010 Budget provides the following tax relief for individuals and families:

- Lower personal income taxes
- An enhanced Tuition Rebate
- A \$100 increase in the Low-Income Seniors' Benefit in 2009 and a further \$100 increase in 2010.

### 6.1 Personal Tax Reductions in 2009

The Budget replaces the existing four-rate, four-bracket structure with two rates and two brackets. Taxes at all income levels will be reduced, allowing New Brunswickers to keep more of their hard-earned money. The rate reductions will be phased in over four years.

In 2009, the personal income tax rates in all four brackets will be lower than they were in 2006. The new two-rate system is much more supportive of income growth and job creation and is less complicated.

By 2012, the existing four-rate personal income tax structure will be replaced with two rates of 9% and 12%. This two-rate system will be phased in over time and will be fully in place for 2012. The personal income tax rates and brackets for 2008 and 2009 are presented in Table 2. Table A.1 in the Appendices shows the rate, bracket and personal credit path for the next four years. It is government's intention to legislate this plan during this session of the Legislature.

The benefits of these lower taxes will begin to be seen on July 1, 2009, when source deductions will begin to reflect the tax savings. At that time, the savings from the rate reduction will be double, with taxpayers receiving the full year's benefit of the annual savings entirely during the last half of the year.

The personal income tax savings from phasing in the two-rate structure for individuals will grow from \$118 million in 2009-2010 to \$232 million in 2010-2011. By 2012-2013, these savings represent \$323 million annually.

**Table 2 – New Brunswick Personal Income Tax Rates**

	<b>Taxable Income Range 2008</b>	<b>Tax Rate 2008</b>	<b>Taxable Income Range 2009</b>	<b>Tax Rate 2009</b>
<b>Bracket 1</b>	\$0 to \$34,836	10.12%	\$0 to \$35,707	9.65%
<b>Bracket 2</b>	\$34,836 to \$69,673	15.48%	\$35,707 to \$71,415	14.50%
<b>Bracket 3</b>	\$69,673 to \$113,273	16.80%	\$71,415 to \$116,105	16.00%
<b>Bracket 4</b>	Above \$113,273	17.95%	Above \$116,105	17.00%

The Low-Income Tax Reduction will be enhanced to provide more tax relief to low and middle-income earners. Currently, the Low-Income Tax Reduction is phased out at 5%. In 2009, the phase-out rate will be reduced to 4% and, after that, will be phased out at 3%. Once fully implemented, this measure will provide \$13 million in tax relief to low and middle-income individuals and families annually.

The Plan for Lower Taxes results in provincial personal income taxes being reduced at all income levels. For example, as illustrated in Table 3, a single earner with taxable income of \$25,000 will pay 13.4% less in personal income tax in 2009 compared to 2008, a savings of approximately \$202. In 2012, this same single earner will see tax savings grow to 31.3%, a reduction of \$473 compared to 2008. For additional examples of tax savings and for the savings in 2012, see Table A.2 in the Appendices.

**Table 3 – New Brunswick Provincial Income Tax Savings for Single Tax Filer**

<b>Taxable Income</b>	<b>Tax Payable 2008</b>	<b>Tax Payable 2009</b>	<b>Savings 2009 - 2008</b>	<b>% Savings 2009 vs 2008</b>
\$15,000	\$65	\$7	-\$58	-89.2%
\$25,000	\$1,509	\$1,307	-\$202	-13.4%
\$40,000	\$3,222	\$2,997	-\$225	-7.0%
\$60,000	\$6,292	\$5,863	-\$429	-6.8%
\$100,000	\$12,884	\$12,092	-\$792	-6.1%
\$140,000	\$19,912	\$18,730	-\$1,182	-5.9%

**Notes:**

1 - Taxpayer is assumed to claim the personal amount, EI premium and CPP contribution.

As illustrated in Table 4, a one-earner family earning \$25,000 will pay 79% less tax in 2009 compared to 2008. This translates into a savings of \$173 in personal income taxes in 2009 compared to 2008. This same taxpayer will see New Brunswick income tax payable completely eliminated in 2012, a reduction of 100% compared to 2008. For additional examples of tax savings and for the personal income tax savings in 2012, refer to Table A.3 in the Appendices.

**Table 4 – New Brunswick Provincial Income Tax Savings for One-Earner Family**

<b>Taxable Income</b>	<b>Tax Payable 2008</b>	<b>Tax Payable 2009</b>	<b>Savings 2009 - 2008</b>	<b>% Savings 2009 vs 2008</b>
<b>\$15,000</b>	\$0	\$0	\$0	0.0%
<b>\$25,000</b>	\$219	\$46	-\$173	-79.0%
<b>\$40,000</b>	\$2,501	\$2,205	-\$296	-11.8%
<b>\$60,000</b>	\$5,570	\$5,158	-\$412	-7.4%
<b>\$100,000</b>	\$12,163	\$11,386	-\$777	-6.4%
<b>\$140,000</b>	\$19,190	\$18,025	-\$1,165	-6.1%

**Notes:**

1 - Taxpayer is assumed to claim the personal and spousal amounts, EI premium and CPP contribution.

Currently, taxes on personal income are higher for New Brunswick workers in highly skilled jobs than in other competing jurisdictions. New Brunswick imposes higher personal income taxes on taxpayers in the middle and upper income levels than most other provinces. These are the income levels of highly skilled and well-paid workers and trades people – the people and jobs that New Brunswick needs to grow the economy.

For example:

- A teacher earning \$50,000 in New Brunswick in 2008 paid at least \$1,100 more income tax than in British Columbia, Ontario and Alberta, and more than in all other provinces except Quebec. When the new two-rate structure is fully implemented, this teacher will save approximately 20% in New Brunswick taxes, or \$959. Based on information to date, this individual will pay less tax than in all provinces except Ontario, Alberta and British Columbia.
- A welder earning \$55,000 in New Brunswick in 2008 paid at least \$1,300 more income tax than in British Columbia, Ontario and Alberta, and more than in all other provinces except Québec. When the new two-rate structure is fully implemented, this welder will save approximately \$1,133. Based on information to date, this individual will pay less tax than in all provinces except Ontario, Alberta and British Columbia.
- A nurse earning \$65,000 in New Brunswick in 2008 paid at least \$1,900 more income tax than in British Columbia, Ontario and Alberta, and more than in all other provinces except Quebec and Nova Scotia. When the new two-rate structure is fully implemented, this nurse will save approximately \$1,481. Based on information to date, this individual will pay less tax than in all other provinces except Ontario, Alberta and British Columbia.

- An engineer earning \$125,000 in New Brunswick in 2008 paid at least \$5,000 more income tax than in British Columbia and Alberta, and more than in all other provinces except Quebec and Nova Scotia. When the new two-rate structure is fully implemented, this engineer will save approximately \$4,434. Based on information to date, this individual will pay less tax than in all other provinces except Alberta and British Columbia.
- A family physician earning \$235,000 in New Brunswick in 2008 paid at least \$14,000 more income tax than in Alberta, at least \$6,000 more than in British Columbia and Saskatchewan, and more than in all other provinces except Quebec, Nova Scotia and Prince Edward Island. When the new two-rate structure is fully implemented, this individual will save approximately \$10,980. Based on information to date, this individual will pay less tax than in all other provinces except Alberta.

The new two-rate income tax structure also:

- Reduces provincial personal income taxes at all income levels and leaves more money in the pockets of New Brunswickers;
- Enables working New Brunswickers to keep more of their income;
- Significantly reduces marginal tax rates at higher income levels;
- Significantly improves the province's ability to attract better-paying jobs and highly skilled labour;
- Improves the attractiveness of our province as a location for New Brunswick businesses and for outside companies to invest, grow and create more jobs;
- Significantly reduces reliance on personal income taxes and makes the overall tax system much more supportive of economic growth and job creation; and,
- Simplifies the tax system, resulting in New Brunswick having fewer tax rates than any province other than Alberta.

## 6.2 Further Tax Relief for Individuals

In addition to the personal income tax rate reductions, this Budget provides for enhancements to the Tuition Rebate Program and the Low-Income Seniors' Benefit. These measures are effective starting in 2009.

### Enhanced Tuition Rebate

This Budget doubles the maximum lifetime rebate from \$10,000 to \$20,000 and the maximum annual rebate from \$2,000 to \$4,000. The estimated annual savings to New Brunswick individuals in 2009 is \$2 million. The enhancements to this program will make New Brunswick more attractive to individuals facing higher tuition costs, including those in health-care professions.

### Increase in the Low-Income Seniors' Benefit

This Budget increases the Low-Income Seniors' Benefit from \$200 to \$300 in 2009. The Low-Income Seniors' Benefit will be further increased to \$400 in 2010, fulfilling the government's commitment to reach this target during this mandate. Increasing the benefit to \$300 will provide additional savings of \$3.5 million to New Brunswick seniors in 2009-2010. Increasing the benefit to \$400 will provide additional savings to New Brunswick seniors of \$8.2 million by 2012-2013.

In total, this Budget will reduce personal taxes by almost \$124 million in fiscal 2009-2010. By 2012-2013, these personal tax savings will grow to be in excess of \$336 million annually.

## 7. A Growth-Oriented Tax Structure for Business

The 2009-2010 Budget provides significantly lower taxes for businesses in New Brunswick by:

- Lowering the general corporate income tax rate from 13% to 12% effective July 1, 2009;
- Lowering the general corporate income tax rate each July 1<sup>st</sup> until the rate reaches 8% on July 1, 2012;
- Increasing the small business limit to \$500,000;
- Introducing a Forestry Industry Investment Tax Credit;
- Extending the High Energy Use Tax Rebate;
- Introducing significant enhancements to the Small Business Investor Tax Credit; and,
- Enhancing the Labour-Sponsored Venture Capital Tax Credit.

In addition to the above measures, the government will introduce an incentive for the energy sector to help encourage growth in this critical component of the economy. Government will consult with industry regarding this incentive.

New Brunswick's goal is simple: to have a globally competitive tax system that lays the foundation for the province to experience economic growth and create more jobs, moving the province toward its goal of self-sufficiency.

To do this, New Brunswick must attract more investment from both existing and new businesses. Increased investment in physical and human capital will improve productivity and worker incomes. Reduced personal income taxes will significantly benefit owners of existing New Brunswick businesses, encourage entrepreneurship and growth, and help provide a welcome and competitive environment for all businesses.

Significantly reducing the general corporate income tax rate from the current 13% will provide a greater incentive for businesses to grow and be successful. The Budget reduces the general corporate income tax rate from 13% to 8% by 2012. Table 5 shows the general corporate income tax rates from 2009 to 2012. The general corporate income tax rate will be reduced on July 1<sup>st</sup> in each of those years. At 8%, New Brunswick will have the lowest provincial general corporate income tax rate in Canada.

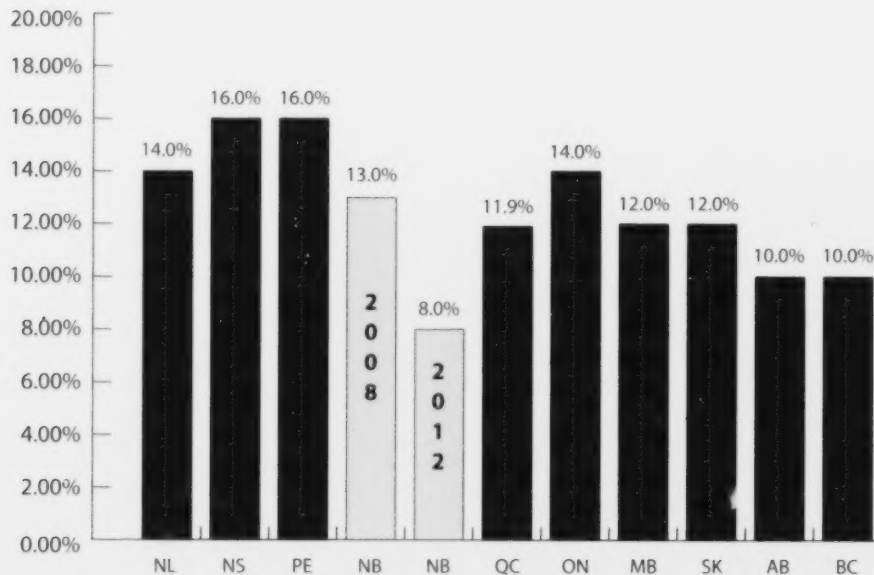
**Table 5 – New Brunswick General Corporate Income Tax Rate: 2009 to 2012**

2009 (Effective July 1)	2010 (Effective July 1)	2011 (Effective July 1)	2012 (Effective July 1)
12%	11%	10%	8%

The federal government has publicly challenged provinces to lower their corporate income tax rates to 10% by 2012. This target is designed to make Canada's corporate taxes more competitive globally.

A New Brunswick general corporate income tax rate of 8% will surpass the federal government's challenge to provinces to reduce corporate income tax rates to 10%. This will make New Brunswick much more attractive for businesses to locate, invest, grow and create more jobs.

**Chart 1 – Interprovincial Comparison: General Corporate Income Tax Rates 2012**



**Source :** Department of Finance

**Note :** Rates are based on information as of March 17, 2009 for the 2012 taxation year.

This Budget reduces New Brunswick's general corporate income tax rate from one of the highest rates in 2008, to the lowest in 2012.

To encourage investment in our key sectors, this Budget includes two measures designed to promote investment and protect jobs. These are the Forestry Industry Investment Tax Credit and the High Energy Use Tax Rebate.

The Forestry Industry Investment Tax Credit will be offered for one year to help this critical sector make needed investments in manufacturing and processing facilities. This credit was offered in 2006 and 2007. Qualifying forestry companies will be eligible for a rebate of 50% of their capital investments in manufacturing and processing equipment up to a maximum of 50% of the provincial property tax paid. This measure will provide up to \$5 million in property tax relief in an effort to protect jobs in the province.

The High Energy Use Tax Rebate will be extended by one year to March 31, 2010. This rebate provides a remission of provincial property taxes payable and will help offset energy costs up to 3% over the previous year. This credit requires that qualifying pulp and paper companies produce at least 85% of the previous year's output and have no property tax arrears. This credit will help protect jobs and will provide roughly \$5 million in savings to the pulp and paper industry.

## **7.1 Lower Taxes for the Small Business Sector:**

This Budget also provides significant tax relief for the small business sector.

The small business limit is increased from \$400,000 to \$500,000, effective January 1, 2009. With this increase, New Brunswick will now be tied for the highest small business limit in Canada. It is estimated that this measure will put approximately \$1 million into the hands of small business operators in the province in 2009-2010.

The New Brunswick Small Business Investor Tax Credit (SBITC) provides a 30% non-refundable personal income tax credit on investments of up to \$80,000. This translates into a maximum credit of up to \$24,000 per year for New Brunswick investors who invest in eligible small businesses in the province. The credit is applied against provincial personal income tax otherwise payable. Investors are required to hold their shares for four years after the initial date of investment. The purpose of the credit is to provide equity capital to New Brunswick small businesses.

Effective for investments made after March 17, 2009, the maximum annual investment will be increased from \$80,000 to \$250,000 per year. This increases the maximum annual tax credit from \$24,000 to \$75,000 per year. There will also be amendments to the program to allow a larger number of investors to participate in an investment project. This measure will provide an estimated \$2 million in additional tax relief in 2009-2010.

The New Brunswick Labour-Sponsored Venture Capital Tax Credit (LSVC) will be enhanced to allow for an increase in the qualifying investment from \$5,000 to \$10,000, and the tax credit rate will increase from 15% to 20%. These measures will apply to shares purchased after March 17, 2009. To ensure that small and medium-sized businesses gain the maximum benefit from these enhancements, amendments will be made to provide for timely and greater reinvestment of LSVC dollars into New Brunswick enterprises.

In New Brunswick, and indeed across North America, small businesses take many forms. Some are corporations; however, many are unincorporated businesses, including sole proprietorships and partnerships. In fact, it is recognized that a large proportion of small business owners actually pay personal income tax – and not corporate income tax. Therefore, for many small businesses, the reduced personal income tax rates will provide significant tax savings. Even for those small businesses paying corporate income tax, the reduction in the personal income tax rates will generate savings when their retained earnings are taken out of the corporation.

Reduced personal income taxes will significantly benefit small businesses where all business income is received as personal income for those that are not incorporated, and in the form of salaries and dividends for the owners of incorporated small businesses.

Significant cuts being made to personal income taxes will have a very positive effect on small businesses in the province, allowing them to keep more of their money to reinvest in their business and also giving them a better opportunity to grow and create more jobs.

The increase in economic activity arising from lower personal and corporate income taxes, along with the increase in the small business limit, and the enhancements to the LSVC and SBITC will be of significant benefit to small businesses throughout the province.

Combined, these measures not only provide direct tax savings, they also improve the access to capital for small and medium-sized enterprises.



## 8. Provincial and Municipal Property Tax Accountability

In recent years, concern has been raised that property tax revenues have increased significantly faster than inflation. With increased assessment values over time, property tax revenues often increase beyond the cost of providing local services. During periods of rapid assessment growth, governments that hold property tax rates constant receive windfall revenues from the increase in property values. This is most pronounced in areas of strongest economic growth where the increase in the market value of properties can far exceed increases in the cost of providing local services. This escalation also occurs with provincial property taxes, placing an increased property tax burden, over time, on all taxpayers, and particularly on those with fixed incomes.

Government is committed to addressing this issue and making property tax revenue increases more transparent.

The Budget introduces a mechanism to improve the accountability to taxpayers for both provincial and municipal property taxes.

With this mechanism, an accountability adjustment factor will apply to both provincial and municipal property taxes. Increased revenues from growth in the assessment base associated with inflation and new construction will continue to automatically flow to municipalities and the Province. However, in order to gain access to the revenues from assessment base growth exceeding inflation and new construction, municipalities or the Province will need to put any proposed tax increases forward publicly, and to a vote by either municipal council or, in the case of the Province, a vote in the Legislature.

The first step in the accountability mechanism is to establish the components of the assessment base for each municipality and the Province. In the illustration presented in Table 6, the assessment base is established to be \$110 million. The growth in the assessment base is \$10 million from the previous year. This is composed of growth from new construction of \$4 million and a market increase of \$6 million. Under the accountability mechanism, the inflation index will be the national Consumer Price Index (CPI). In this example, inflation is assumed to be 3%, so the market increase will be limited to \$3 million. The result is that this jurisdiction's notional assessment base would be limited to \$107 million.

**Table 6 – Establishing the Assessment Components**

<b>Prior Year Property Tax Rate</b>	<b>\$1.42</b>
<b>Assessment Base of New Year</b>	<b>\$110,000,000</b>
Assessment Base of Prior Year	\$100,000,000
New Construction Component	\$4,000,000
Market Increase Component	\$6,000,000
<b>Notional Assessment Base of New Year</b>	<b>\$107,000,000</b>
Assessment Base of Prior Year	\$100,000,000
New Construction Component	\$4,000,000
Inflation Index (e.g. 3%)	\$3,000,000

However, the actual assessment base will not be limited to the lower amount. Instead, the municipal or provincial property tax rate will be reduced to ensure that the revenue from the assessment base only reflects the growth due to inflation and new construction, as shown in Table 7.



In this example, the municipal rate would be automatically reduced from \$1.42 per \$100 of assessed value to \$1.38 per \$100 of assessed value.

In the event that a municipality or the Province wanted to benefit from the amount of the assessment base growth that exceeds inflation and new construction, they would have to increase their rate back to \$1.42 from the \$1.38 established by the accountability mechanism – by a vote at municipal council or in the provincial Legislature, respectively.

In the event that there was an assessment base decrease, this mechanism would not apply.

**Table 7 – Application of the Property Tax Accountability Mechanism**

<b>Accountability Adjustment Factor</b>
= Notional Assessment Base of New Year / Assessment Base of New Year
= \$107,000,000/\$110,000,000
= 0.9727
<b>New Year Property Tax Rate</b>
= Accountability Adjustment Factor * Prior Year Property Tax Rate
= (0.9727) * (\$1.42)
= \$1.38

With the accountability mechanism, municipalities and the Province can continue to experience growth in annual property tax revenues. The revenue growth is limited to the growth in the assessment base associated with inflation and new construction. To exceed this amount, each municipality or the Province would need to increase their property tax rates accordingly.

It is important to recognize that annual property assessment increases for individual property owners will not be limited as a result of the accountability mechanism. Rather, the property tax rate that is applied to the annual property assessment will be adjusted. To the extent that municipal and provincial property tax rates are reduced through the application of the accountability mechanism, property tax relief will be provided to individual property owners by way of the lower rate.

## 9. Conclusion

The Plan for Lower Taxes outlines the actions that will be taken to move New Brunswick further along the path to self-sufficiency. The Plan is designed to create the conditions by which long-term economic growth can take place and will provide a stimulus to help New Brunswick in the short term as we work through this economic downturn. It will help keep young New Brunswickers here and also bring former residents back home to work and raise families, right here in New Brunswick.

- Lower personal income taxes will allow New Brunswick taxpayers to keep more of their money and will help to attract higher paying jobs and highly skilled workers to New Brunswick, helping to grow the population, grow the economy and create more jobs.
- Lower taxes help New Brunswick businesses stay in the province and grow, and also attract outside investment creating meaningful jobs for our children to remain or return to work right here in New Brunswick.
- Lower corporate income taxes will also make New Brunswick more attractive for business, investment and people, as well as encouraging economic growth and job creation.
- In addition to the general corporate income tax rate reductions, this Budget also provides for an increase in the small business limit to \$500,000 and an enhanced Small Business Investor Tax Credit and Labour-Sponsored Venture Capital Tax Credit.
- Addressing concerns with respect to the annual escalation of property tax revenues due to increasing assessments will ensure greater political accountability for provincial and municipal property taxes and spending decisions.

New Brunswick will become a leader nationally and more competitive globally in attracting the investment and people that are needed to grow the economy. This will help create new jobs, increase incomes and provide a stronger, self-sufficient New Brunswick for future generations.

For additional information, including interprovincial comparisons see the New Brunswick Department of Finance website at: [www.gnb.ca/finance](http://www.gnb.ca/finance). A new feature on the website is a tax calculator where individuals can see their tax savings resulting from the personal income tax changes announced in this Budget.